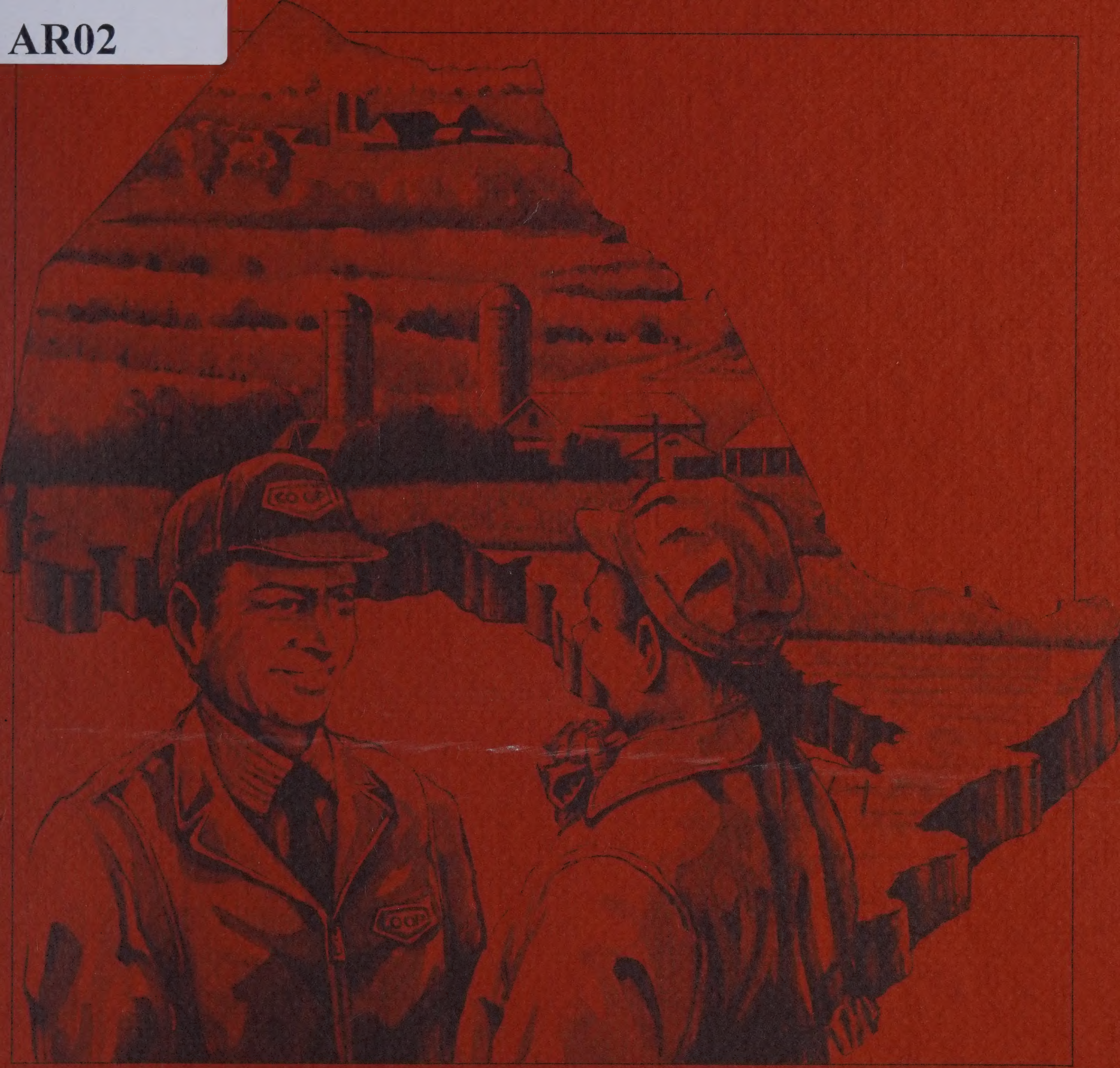


UCO

United Co-operatives of Ontario Annual Report 1981

United Co-operatives of Ontario

It is the purpose of United Co-operatives of Ontario to operate a growing and economically sound co-operative furnishing farm supplies and services, marketing farm products, and supplying consumer goods and services, in a manner which gives present and future members economic benefits and improves their quality of life and well-being.

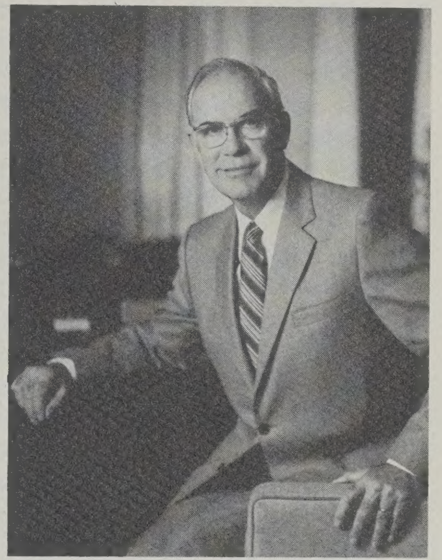
United Co-operatives of Ontario is the largest farm supply and marketing co-operative in this province. More than 49,000 direct members as well as 49 member co-operatives across Ontario are the owners of UCO. Because we are a co-operative, each member has an equal voice. The familiar "CO-OP" or "UCO" sign can be found in most rural Ontario towns, on feed mills, fertilizer facilities, petroleum trucks, grain elevators, retail outlets, and on our farm and home centres. On behalf of our membership, we serve as a wholesaler, manufacturer, distributor and retailer, and in these ways play an important part in the economy of rural Ontario.

Board of Directors and Senior Management

Standing, from left to right: Royden C. Bloomfield, Zone 8. Murray Allen, Zone 2. *Robert W. M. Down, Zone 7, First Vice-President.
Seated, from left to right: *J. R. Ernest Miller, Group 1. *John S. Black, Zone 5, Second Vice-President. *Robert A. Coulthard, Group 3, President. *Members of Executive Committee.

From left to right: Stuart Dorrell, Zone 1. Ewald J. A. Lammerding, Zone 6. Stuart W. Luckhardt, Group 2. Neil W. McGeachy, Zone 9. Harvey E. Malcolm, Zone 3. Allan E. Wellman, Zone 4. *(Centre, seated)*

Robert A. Coulthard, President



Julian L. Smith,
Chief Executive Officer

From left to right:
J. Donald Huff,
Vice-President,
Farm Products Marketing
Russell E. Duckworth,
Vice-President, Supplies
Donald M. Moffatt,
Vice-President,
Supply and Merchandising
Frank C. de Lint,
Vice-President, Finance
and Treasurer
Julian L. Smith,
Chief Executive Officer (seated)
Robert J. Wright,
Vice-President, Corporate Services
and Corporate Secretary

Directors' Report

The 1981 fiscal year which ended on the 26th of September was an extaordinary period of time. It was a year with tremendous sales growth and opportunities, and was also a year with significant frustrations.

Sales in general surpassed expectations both in terms of budget and last year's figures. Sales growth in many cases exceeded the rate of inflation indicating real market penetration in some areas.

On the other hand, we have seen operating costs, in particular interest expense, exceed all forecasts. This, combined with our inability to produce satisfactory gross margins, and a major unexpected loss in grain marketing resulted in a net loss for the year.

The year for your Co-operative has been in tune with the year experienced by most farmers. We have seen interest rates rise from 12 and 14 percent to 21 and 22 percent, even as high as 24 percent. We have seen our farm input costs in the last two or three years increase significantly.

Prices for farm products declined, compounding the effect of high interest rates, and higher input costs. Any farm operation or any other business operation that is significantly leveraged is under severe economic pressure.

Since our Co-operative is highly leveraged, expansion during the 1981 year was limited and expansion undertaken in 1982 will be limited to those projects considered absolutely necessary or that provide an immediate return on invested capital. We must make new efforts to improve our equity ratio and reduce our use of borrowed capital.

In addition to a controlled capital expansion program, we plan to emphasize our search for operating economies and reconsider carefully traditionally unprofitable operating areas. We may have to make decisions that are difficult to accept, decisions that may seem in the short run by some of our members to be unpalatable, but which we believe will result in a stronger service oriented Co-operative down the road. These decisions may involve the reorganization of some retail services or manufacturing plants, restructuring of administrative units and divesting ourselves of unprofitable products or businesses. In so doing, we must not overreact to short-term problems and jeopardize the long-term success of our Co-operative. However, as we follow this course of action, we will make decisions that will continue to improve efficiencies and our current level of service at the farm gate because farm gate service is the real bottom line of our Co-operative.

This past year UCO continued as a conscientious co-operative with a good record of social responsibility in the communities in which we do business. We continued to offer the Young Couples' program by holding our third conference at Muskoka Sands in July. In addition, two weeks of the Youth Camp were held in August at Geneva Park. Both of these conferences were fully attended with competent, capable young men and women who represent significant leadership potential for our organization.

The Board of Directors authorized continuing financial support of the Co-operative Union of Canada and the Ontario Federation of Agriculture. Our objective in supporting these organizations is to continue to provide a strong voice to federal and provincial governments. The CUC represents co-operatives across Canada and UCO is one of its members.

The Ontario Federation of Agriculture has developed a strong political voice and represents a significant sector of the agricultural community. We are supportive of the work that the OFA has done, particularly their assistance in opposing the coloured fuel program. Our efforts to communicate with governments will produce positive results because our Co-operative is seen as a strong and creditable organization with solid roots in many rural communities.

In the area of co-operative membership, we obtained 1,787 new members and we redeemed 836 memberships primarily through resolution of estates, for a net gain of 951 members. Your Board of Directors is continually concerned with the area of membership. We are hopeful each year we will have a net growth in member numbers but equally important, we must build active, involved, and participating members. During the year the Board made full use of its committees. The Membership Committee planned the annual meeting and conducted a study to determine how many members did not exercise their membership rights in 1980. The Member Equity and Investment Committee addressed the issue of declining member equity ratio. It studied various strategies to encourage members to invest in common and preference shares. The Board reviewed the committee's recommendation and will seek delegate guidance early in 1982. The Executive Committee met regularly to review sensitive issues and to prepare subjects for presentation to the Board. A Management Succession Committee was established to conduct an executive search to identify

qualified candidates to replace our present Chief Executive Officer who is nearing retirement. The effective deployment of committees was instrumental in helping the Board deal with an increasing order of business at 12 Board meetings.

To ensure an effective Board and qualified UCO Directors, the Board reviewed its job description, evaluated its performance against standards of performance, and identified an appropriate training and development plan to meet both short and long-term needs. The program included speakers on timely subjects, presentations by division managers on specialized operations, tours of retail and manufacturing facilities, and meetings with UCO branch councils and member co-operative boards.

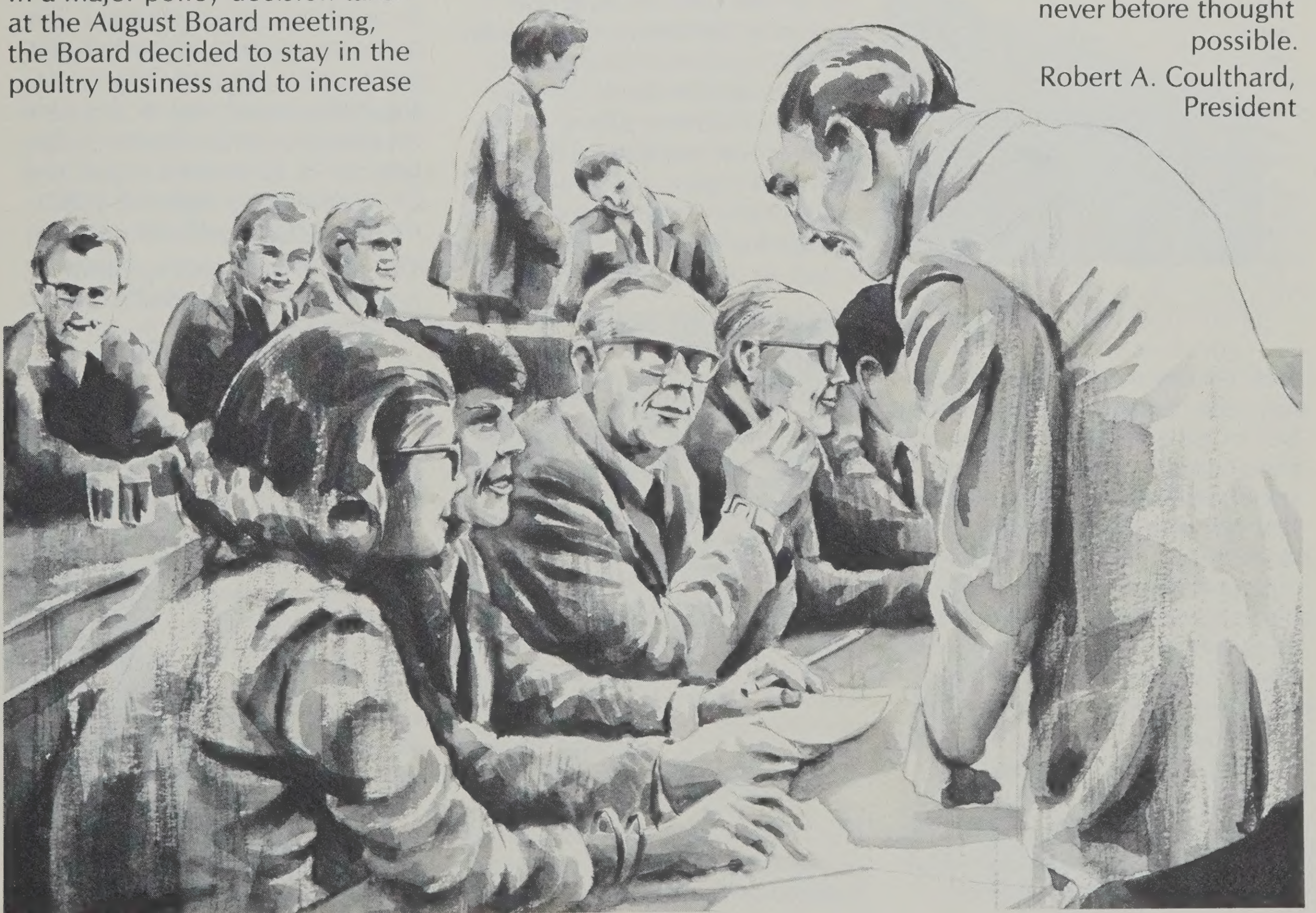
In a major policy decision taken at the August Board meeting, the Board decided to stay in the poultry business and to increase its market position by the purchase of the Flavorite poultry processing plant from T.M. Spratt Ltd. The purchase will improve efficiencies in our present poultry processing operation at the Tend-R-Fresh plant at Petersburg.

During the year, Norfolk Co-Operative Company Ltd., a UCO member co-operative, came under threat of a takeover bid. The Board supports all efforts to resist this threat and any other threat to farm co-operatives in Ontario and has authorized management to support Norfolk and to make presentations on the matter to government regulatory bodies. Should our efforts to resist this takeover bid fail, the farm community in Ontario will suffer a major loss of independence and autonomy.

In summary, this past year has been difficult, challenging and frustrating at times, producing operating results that are less than satisfactory. We, as a Board, along with senior management and all UCO employees, are looking for new and innovative ways to correct past problems and to turn them into positive results. The opportunities are there. We have a strong, comprehensive Co-operative which has grown over the past years surviving several periods of difficult economic times.

The co-operative movement in Ontario grew out of economic conditions that were certainly extraordinary and without precedent. We are in similar conditions today, but we have an opportunity to join hands, to join forces, to apply our resources, and to progress as a co-operative to new levels of achievement never before thought possible.

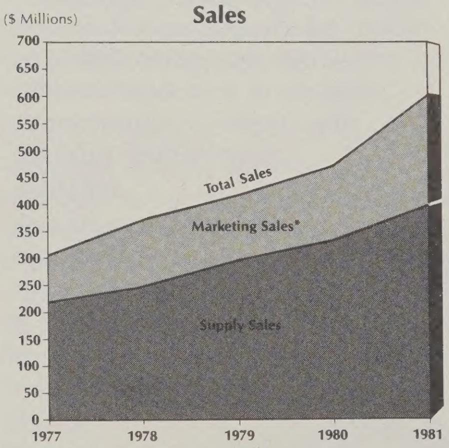
Robert A. Coulthard,
President



Management Report

The 1981 fiscal year which concluded on September 26 was the busiest one on record with total sales exceeding half a billion dollars for the first time. Aided somewhat by inflation in prices of petroleum products, your Co-operative had a $131,000,000 increase in business or a 27.8 percent growth in sales. This brought the volume for the year to $604,000,000. This growth was set against the background of an Ontario agricultural economy which is forecast to produce a sixteen percent increase in farm cash receipts and close to an eleven percent increase in net farm income for the province in 1981 as compared to 1980.

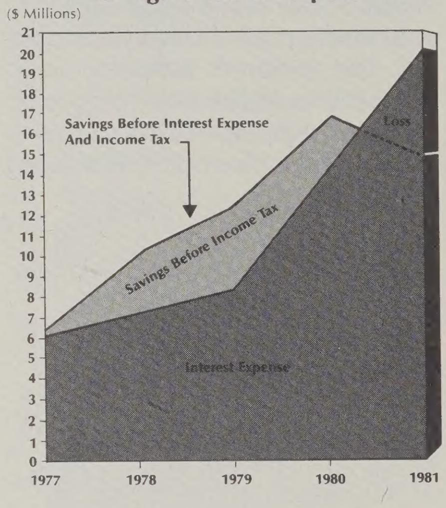
Sales



*Excluding value of Livestock Marketed as follows:
$85 $118 $174 $192 $168

The trend in savings went in the opposite direction and showed a loss of $2,900,000 for the year. A combination of factors contributed to this result. This was the first full year of carrying the financial load of three major capital investments: the Windsor grain terminal, the new Peterborough and Wingham feed plants. These facilities helped to boost total depreciation to $6,800,000 for the year, an increase of more than $1,000,000 over the previous year. These new investments, plus the funds required for added inventories and receivables relating to the growth in business,

Savings & Interest Expense



resulted in a modest 7.8 percent increase in total assets. However, the record high interest rates were largely responsible for a 39.2 percent increase in interest expense which was $5,500,000 higher than the previous year. The prime bank lending rate peaked at 22¾ percent in August of 1981 compared to a peak of 17½ percent in April of 1980. These conditions, plus a very competitive marketplace that held down gross margins, and problems in our grain marketing operations combined to produce a loss on operations.

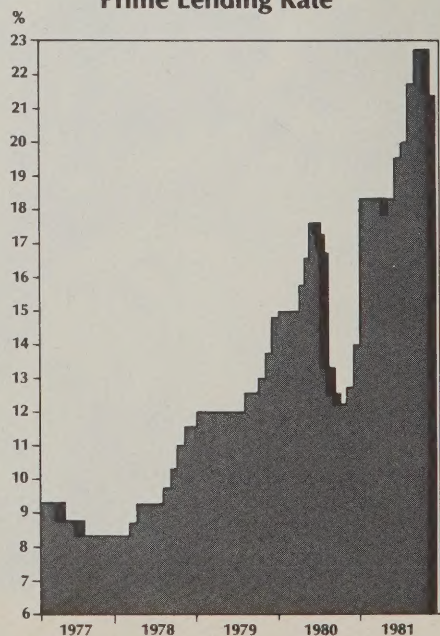
Marketing of Farm Products

For the first time in recent history, the dollar volume of marketing grain, poultry and livestock products exceeded the dollar volume of supplies sales. Grain and poultry marketings were $207,000,000 and livestock which is handled on an agency basis reached $168,000,000. The growth in marketing activity is in direct response to the demand of members for their Co-operative to play a larger role in the marketing of farm products.

Grain marketing activity grew at a phenomenal rate with a forty-five percent increase in tonnes marketed. In fact, the grain marketing dollar volume for the year was larger than all UCO operations in 1973. This record was achieved in spite of the fact that the 1980 fall crop was harvested so rapidly because of the good weather conditions, that the Co-operative was not able to handle the volumes that members wanted to market. This situation demonstrated how acutely the storage capacity of the new grain terminal was needed. There is little doubt it will not be very long before consideration will have to be given to increasing the size of this terminal. Overall, the new Windsor grain terminal has functioned well. Equipment has generally performed to designed capacities. Truck receiving of grain is probably the fastest of any grain facility in the province and ships are loaded faster than was anticipated. The terminal revenue exceeded plan by fourteen percent. However, the high capital cost of this facility places a heavy financial burden on its operations and it will be several years before the terminal operates with an earning.

The poultry marketing operations had a substantially better

Prime Lending Rate



year. A combination of a very tight control program and some better price relationships resulted in a $1,700,000 improvement in the poultry marketing division. There was a small reduction in the pounds processed but higher wholesale prices for both chicken and turkey resulted in a substantial dollar sales increase.

The hatchery, which continued to operate well, was affected by a cutback in chicken production, and as a result had a decrease in chick sales. Again, because of higher prices per chick, the sales dollars from the hatchery showed a modest increase.

The poultry byproducts recycling plant, working in conjunction with the processing plant, operated profitably, producing feather meal and meat meal. A very vital application to the Ministry of Environment for further use of this plant was at first rejected. A well presented appeal won a reversal of this decision and opened the door to the possibility of helping make the poultry processing operation profitable. However, the decision of the tribunal that heard the case has now been appealed and is pending action.

Over several years, poultry processing operations have been a matter of concern and considerable attention has been given to alternatives for improvement. After serious consideration, UCO came to the same conclusion as other major meat packers that poultry meat will continue to grow in importance in our food economy, and that co-operatives should continue to play a significant role in this business. However, to do this on a fully economical basis, it was apparent that more flexibility in processing arrangements was needed, as well as assurance that the right quantities and classes of chicken and turkey would be available to operate a plant efficiently and supply the variable market demand. As a result, an arrangement was made to purchase Flavorite Poultry Limited, a highly automated plant located at Stoney Creek, just outside of Hamilton. The purchase was completed prior to the year end. It is expected that the combined volume of the two plants will now give UCO approximately sixteen percent of the Ontario dressed chicken market and eighteen percent of the dressed turkey market. This purchase also expands the opportunities to provide feed for the birds processed through the two plants.

The livestock marketing operation is one area which suffered deflation as was evidenced by the poorer prices farmers received for their beef. Total cattle marketed in Ontario declined about fourteen percent and so did UCO's volume but at a lesser rate. The result was that UCO increased its share of the cattle and calves marketed on the Ontario Stockyards.

The aggressive program to serve members was continued with the opening, about a year ago, of a second livestock assembly yard near Strathroy. This complements our livestock marketing service at Owen Sound. Service in the Chatham area was extended with the securing of the services of an outstanding livestock man who will help make marketing arrangements for beef producers in that area.

Farm Inputs

Supplies sales on a wholesale basis showed an increase of 17.9 percent to a total of $124,000,000. This was an increase of $19,000,000 over the previous year. In the farm input areas of the business, livestock and poultry feeds still hold the number one position in UCO as the category with the largest dollar sales.

Declines in broiler and turkey feed sales were offset by increases in other categories with the result that tonnes of feed sold were ahead of last year.

Both of the new feed plants at Wingham and Peterborough operated well. With continued inflation in construction and machinery costs, it is fortunate UCO did go ahead with building these plants as it is estimated that it would cost two million dollars more to build them today. With rising labour cost and increased cost of replacing any feed mill equipment, it is evident that there will be a continuation of the trend to less feed being manufactured in small, less efficient plants. This means shifting more feed volume to the larger manufacturing plants. The new steam flaked grains for dairy and beef rations produced at the new plants have proven to be very popular. Plans are now underway to extend the availability of these feeds to other parts of the province. These new plants have also facilitated more utilization of locally grown grains.

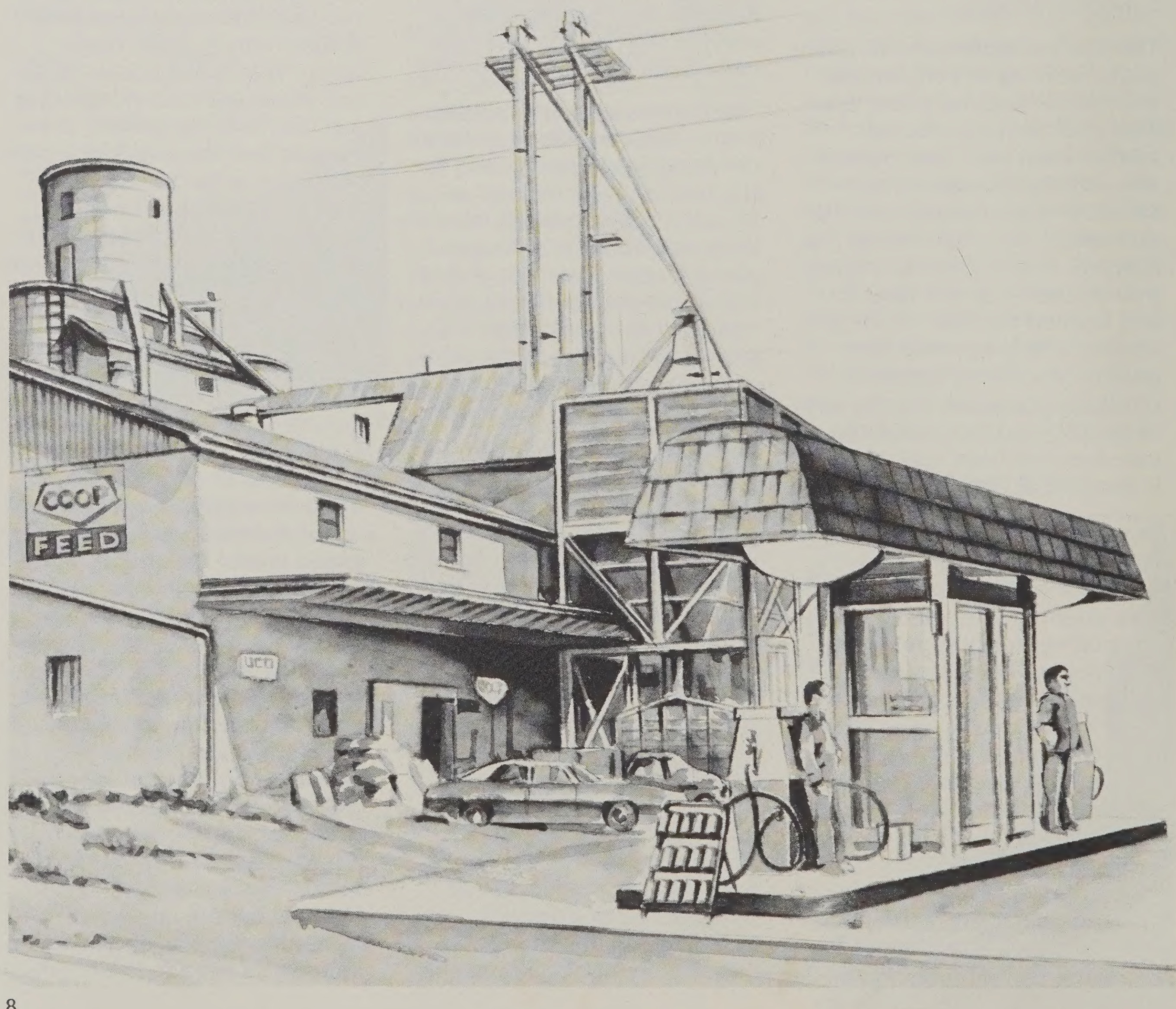
As a result of the continued escalation in oil prices, petroleum has become UCO's second largest wholesale volume category measured in dollars. In spite of no-growth in consumption of petroleum products this year, UCO did show a modest increase in the number of litres sold of liquid petroleum, while propane sales showed a slight decrease. Users of petroleum products have suffered a sixty-five percent increase in price in liquid petro-

leum products in the past two years. About fifteen cents of this increase has been in taxes. The bright side of this, however, is that the Ontario Government has removed the tax from propane so that there is a definite economic advantage to running a tractor, car or truck on propane. UCO now has six trucks and one car powered by propane. It also has three filling stations that can service propane-powered vehicles and this service will be added at other locations as demand justifies the expensive installations to provide this service.

To supply the retail demand for petroleum, new gas bars were installed at Campbellford, Hanover, and Chatham. If the volume through these new facilities is any indication, there is a great demand for this type of CO-OP service. Unfortunately, the very large capital cost of such installations limits the rate at which this service can be added.

In spite of the Federal Government's active program to help consumers to switch from heating oil to other fuels, UCO has been able to hold its sales volume of fuel oil to about the same level as last year. This is a result of maintaining high standards of service and an aggressive program in picking up new accounts.

There was great concern in the Ontario petroleum distribution business this year with the proposal of the Provincial Government to require the colouration



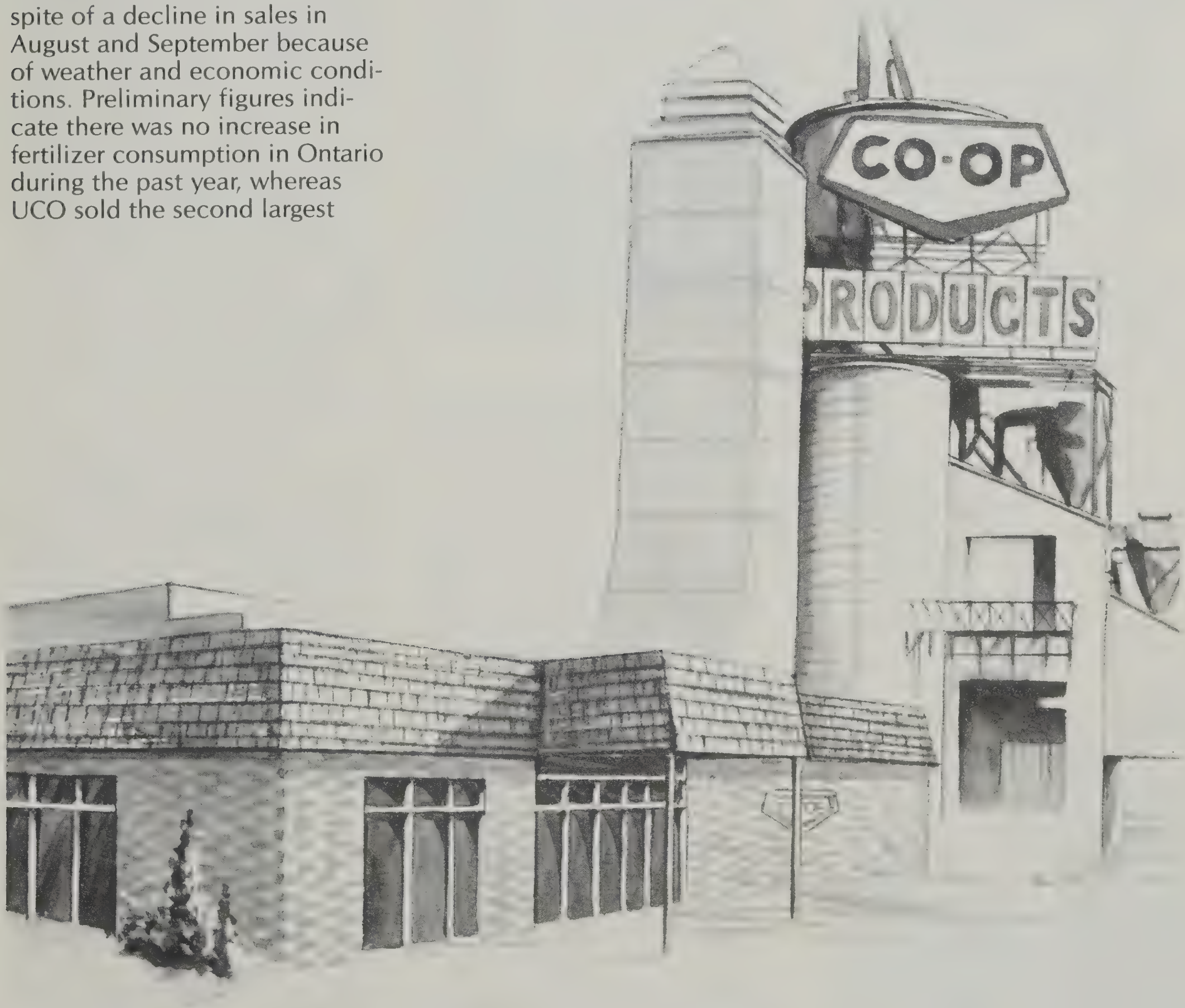
of heating fuels. Such action would require over a million dollars of investment to install duplicate distribution equipment to handle this separate product without a penny of additional return. This is certainly no time for the Co-operative to take on such an increased financial burden without compensating income. This problem was brought to the attention of our elected people who urged the government not to take such a step without some compensation for the added cost.

There was a ten percent increase in the tonnes of fertilizer sold in spite of a decline in sales in August and September because of weather and economic conditions. Preliminary figures indicate there was no increase in fertilizer consumption in Ontario during the past year, whereas UCO sold the second largest amount of fertilizer tonnes in its history. This means that your Co-operative continued to increase its share of the market.

Four new fertilizer blenders were installed by member co-operatives at Sunderland, Courtland, Walsh, and Dutton. This brings the number of blenders in the CO-OP system to sixty-seven, a level for fertilizer service unequalled by any other organization in the province. In addition to these blenders, several retail branches and member co-operatives improved blender facilities and fertilizer spreading services.

As back-up to these facilities, the storage capacity of the Thamesville fertilizer terminal was increased by over 60 percent while the loadout capacity was doubled. In spite of this growth a number of locations still require blender and spreading services.

With the tighter economy and changing farming practices there was a decrease in farmers' purchases of forage seed and UCO's



volume of this item suffered accordingly. Small grain seed did show a fifteen percent increase in units. We also had an increase in sales in Ontario of hybrid corn. However, we lost some out-of-province sales of CO-OP hybrids, leading to an overall reduction in our hybrid corn volume. Top-yielding early hybrid corn CO-OP 2610 was introduced and well accepted. Also, two new improved full season hybrids, CO-OP 3330 and CO-OP 3440, were introduced. Both of these varieties achieved an outstanding performance with excellent yield indices in the Ontario seed corn trials. Over 100 hybrid corn demonstration plots were established across the province to help tell the story of the good performance of the various CO-OP hybrids.

Agricultural chemical volume continued to show a very substantial increase. Because of the high cost of these products, everyone from the farmer through the retailer and wholesaler is extremely careful not to have surplus product on hand. As a result, there may be no supply available when needed. Therefore, UCO continued to improve its supply system for these products by establishing field warehouses on a seasonal basis where back-up supplies of chemical products can be picked up quickly. This has permitted a high standard of service to be maintained for these products.

As net farm income shrinks, the discretionary spending of farmers falls off very rapidly. This seems to hit the general hardware or stores category of sales hardest. After all, a member might get by another year without a new snow blower or power hand tool when money is really tight. Sales in this category remain steady with the dollar growth largely accounted for by inflation. A contributing factor to our not having a decline in hardware farm supply sales was a very successful first spring catalogue, which brought to the attention of many people the broad line of supplies available through their Co-operative. UCO had a substantial increase in the sales of lumber and building supplies. This increase was due to the remission of sales tax on building materials and the aggressive efforts of staff who aided members with their farm building requirements.

Under present economic conditions there has been a steady demand for replacement parts for farm mechanical equipment to keep the present machinery operating as long as possible. UCO, therefore, moved forward to provide service depots in various parts of the province. This should assure members of service within a reasonable length of time on equipment they obtained from the Co-operative.

Retail Branches

Retail branch sales maintained a high level of activity during the year with almost a twenty percent increase in supply sales and a thirty-seven percent increase in marketing volume. The combined retail branch volume was $327,000,000, an increase of $61,000,000 over the previous year. Before the $2,100,000 increase in interest cost for branches, the operations were a little better than the previous year, but not sufficient to overcome this added expense burden. Every effort was made to maintain a high level of service while at the same time taking advantage of opportunities for increased efficiency in the use of both manpower and dollars.

A fleet of thirty-four fertilizer spreader trucks backed-up with thirty-five supply trucks distributed throughout the province, were kept very busy striving to meet members' demands for fertilizer application service. The consolidation of local feed mills continued to go forward with expansion of facilities at some locations and the closing of others to provide service to members at lower cost through more efficient and larger feed plants. Local feed manufacturing has been curtailed at twelve locations in the past two years.

There were limited modifications to some supply stores to improve the attractiveness of product displays and to facilitate service while at the same time helping to speed inventory turnover.

Also during the year, there was some upgrading of local grain handling facilities. A large new truck scale was installed at Thamesville to serve both the fertilizer plant and the local grain elevator. Modifications in the way of elevator legs, driers and storage pads were made at Ilderton, Brigden, Foxboro, and Milton.

A major ongoing expense is to provide and replace delivery trucks. Replacement costs are often up to 250 percent higher than the older ones they replace. A truck overhaul garage operated by UCO has gone a long way in helping to get full-life out of trucks and to reduce costs of maintaining them. Special work has been done to reorganize delivery services whether for feed, fertilizer or petroleum, so as to maximize the use of delivery equipment and to hold down costs. This means that in some instances, delivery service can be provided only on a set schedule basis, and not on short notice as was possible in the past when costs were lower.

Financial Highlights

	($000's omitted) 1981	1980
Sales	$604,047	$472,478
Net savings (loss)	(2,858)	2,238
Dividend on preference shares (declared after year-end)	471	470
Additions to property and equipment	7,982	14,353
Working capital	23,505	28,538
Long-term debt	74,388	70,059
Members' equity including deferred income tax	40,809	44,664
Total assets	209,554	194,364

Financial Review

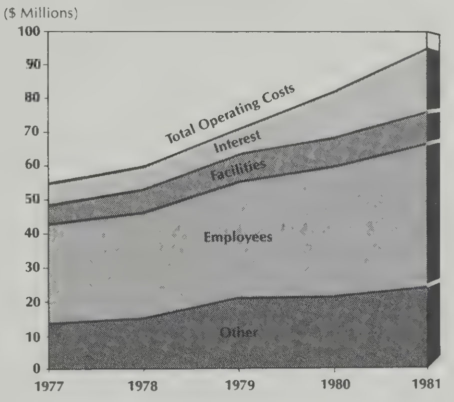
Sales at $604,047,000 were 27.8 percent greater than last year. Dollar volume of products marketed increased by 51.4 percent and farm supplies sales grew by 18.3 percent over 1980 with inflation accounting for about eighteen percent of the overall increase in sales dollars. Gross margins were generally depressed during 1981 as a result of market conditions, fluctuating commodity prices and grain trading operations. Commissions and service revenues were substantially higher reflecting a full year's operation of the Windsor grain terminal.

UCO's fertilizer ingredients supplier, CF Industries, had a good operating year and this resulted in an increase in your Co-operative's patronage from this source. This improvement modified to a significant extent the decline in farm supplies gross margins.

Gross margin as a percent of sales was 11.4 percent compared to 14.1 percent for the previous year.

Total expenses increased by 17.2 percent in 1981. Higher interest rates were again a major factor in higher operating costs and total interest expense was 39.2 percent greater than last year

Total Operating Costs



and accounted for almost half of the increase in total expenses. Other expenses grew by 11.1 percent and staff related costs were held to an increase of 9.2 percent.

In an environment where excellent sales growth was combined with record high interest rates and significant inflation, your Co-operative's total assets grew by $15,190,000 to $209,554,000, an increase of 7.8 percent over 1980.

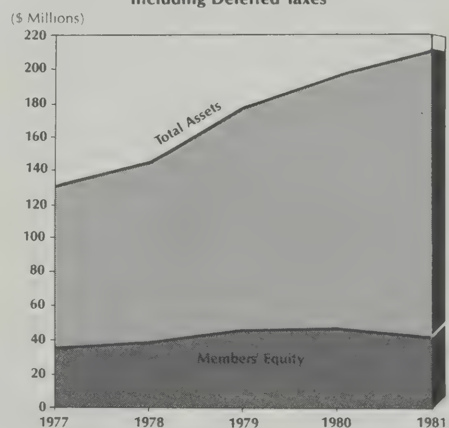
With sales increasing almost twenty-eight percent, money use was under continuous scrutiny and at year end accounts receivable and inventory were 15.8 percent and 3.1 percent respectively higher than 1980.

Improved utilization of funds resulted in better turnover ratios for accounts receivable, inventories and fixed assets.

Depreciation expense amounted to 85.7 percent of capital expenditures in 1981, compared to 39.5 percent in the previous year when the major projects at Windsor, Wingham and Peterborough were being completed.

Members' equity, including deferred income taxes, declined to $40,809,000 from $44,664,000 a year ago. The loss from operations for 1981 was the major cause of reducing members' equity. A program has been developed to ensure greater member participation in equity building so as to provide a base of member investment commensurate with the financing needs of the Co-operative.

Total Assets & Members' Equity
Including Deferred Taxes



In total, UCO handled $131,569,000 more volume than the previous year. The sales growth was handled by an increase of 2.6 percent in the number of employees. This is a real credit to the resourcefulness, diligence and hard work of a fine group of loyal employees. The increase in volume was possible only because of the growing number of members who gave their Co-operative support by looking to it for supplies and marketing services. Local leaders gave generously of their time and attention to the activities and problems of their Co-operative. This group in turn elected twelve capable men from among them to serve as the Board of UCO. To the Board, the management team expresses its appreciation for their leadership.

Julian L. Smith,
Chief Executive Officer

Financial Report

UNITED CO-OPERATIVES OF ONTARIO

CONSOLIDATED BALANCE SHEET

September 26, 1981
(With comparative amounts at September 27, 1980)

ASSETS	**1981**	**1980**
CURRENT		
Cash	$ 41,948	$ 40,528
Accounts receivable, less $2,090,091 allowance for doubtful accounts (1980 — $1,904,319)	51,862,131	44,790,091
Inventories	63,800,309	61,872,895
Prepaid expenses and supplies	2,156,974	1,475,264
Total current assets	117,861,362	108,178,778
DEFERRED ACCOUNTS RECEIVABLE		
Patronage receivable	12,558,242	9,585,931
Other accounts receivable (Note 8)	1,196,035	127,089
Total deferred receivables	13,754,277	9,713,020
INVESTMENTS (Note 2)	7,888,206	7,316,841
PROPERTY AND EQUIPMENT (Note 3)	70,050,047	69,155,296
	$209,553,892	$194,363,935

LIABILITIES AND MEMBERS' EQUITY	**1981**	**1980**
CURRENT		
Bank indebtedness	$ 28,209,763	$ 30,593,297
Notes payable	22,451,541	10,858,000
Accounts payable and accrued liabilities	40,831,503	32,333,581
Current portion of long-term debt	2,829,314	5,824,472
Income taxes payable	34,540	31,117
Total current liabilities	94,356,661	79,640,467
DEFERRED INCOME TAXES (Note 1)	—	3,397,000
LONG-TERM DEBT (Note 4)	74,388,024	70,059,148
Total liabilities	168,744,685	153,096,615
MEMBERS' EQUITY (Notes 5 and 6)		
Share capital	23,824,900	21,074,620
Contributed surplus	667,400	667,400
General reserve — per statement	16,316,907	19,525,300
Total members' equity	40,809,207	41,267,320
	$209,553,892	$194,363,935

Approved by the Board

Robert A. Coulthard, Director

Robert W. M. Down, Director

UNITED CO-OPERATIVES OF ONTARIO

CONSOLIDATED STATEMENT OF OPERATIONS

For the 52 weeks ended September 26, 1981
(With comparative amounts for the 52 weeks ended September 27, 1980)

	1981	1980
SALES	$604,047,029	$472,477,610
COST OF GOODS SOLD (Note 8)	535,466,520	405,800,025
GROSS MARGIN	68,580,509	66,677,585
COMMISSIONS AND SERVICE REVENUES	4,602,792	2,107,517
	73,183,301	68,785,102
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	58,330,107	52,489,286
INTEREST EXPENSE	20,058,897	14,408,305
SAVINGS (LOSS) BEFORE INCOME TAXES	(5,205,703)	1,887,511
INCOME TAXES (Note 1)	(2,347,600)	(350,000)
NET SAVINGS (LOSS)	$ (2,858,103)	$ 2,237,511
Net savings for the year are after accounting for the following amounts:		
Investment income — deducted from expenses	$ 549,648	$ 346,460
Depreciation	6,842,200	5,667,069
Remuneration of directors and senior officers	590,834	547,656
Interest on debentures and long-term debt	10,177,116	7,069,523
Interest on short-term loans	9,881,781	7,338,782

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the 52 weeks ended September 26, 1981
(With comparative amounts for the 52 weeks ended September 27, 1980)

	1981	1980
BALANCE AT BEGINNING OF YEAR as restated and explained in Note 9	$ 19,525,300	$ 18,634,242
Add: Net savings (loss) for the year	(2,858,103)	2,237,511
Gain on disposal of fixed assets	119,710	299,745
	16,786,907	21,171,498
Less: Patronage returns for preceding year	185	1,238,809
Dividends on preference shares (Note 11)	469,815	407,389
	470,000	1,646,198
BALANCE AT END OF YEAR	$ 16,316,907	$ 19,525,300

UNITED CO-OPERATIVES OF ONTARIO

CONSOLIDATED STATEMENT CHANGES IN FINANCIAL POSITION

For the 52 weeks ended September 26, 1981
(With comparative amounts for the 52 weeks ended September 27, 1980)

	1981	1980
SOURCE OF FUNDS		
Funds derived from operations		
Net savings (loss) for the year	$ (2,858,103)	$ 2,237,511
Add (Deduct): Charges to operations which did not require the outlay of current funds		
Depreciation	6,842,200	5,667,069
Deferred income taxes	(3,452,000)	(1,094,200)
Total funds from operations	532,097	6,810,380
Proceeds on disposal of property and equipment	419,986	700,033
Debentures increase	4,084,085	1,560,949
Increase in other long-term debt	4,434,002	9,226,090
Preference shares issued	3,263,820	676,030
Common shares issued	19,390	1,061,410
Total sources	12,753,380	20,034,892
APPLICATION OF FUNDS		
Increase in deferred receivables and investments	4,612,622	4,915,990
Additions to property and equipment	7,982,227	14,353,198
Debentures redeemed	4,189,211	3,333,963
Preference shares redeemed or acquired for resale	206,150	34,040
Common shares redeemed	326,780	513,140
Payment of dividends on preference shares	469,815	407,389
Patronage returns for preceding year	185	1,238,809
Total applications	17,786,990	24,796,529
(DECREASE) IN WORKING CAPITAL	(5,033,610)	(4,761,637)
WORKING CAPITAL AT BEGINNING OF YEAR	28,538,311	33,299,948
WORKING CAPITAL AT END OF YEAR	$ 23,504,701	$ 28,538,311
WORKING CAPITAL IS DEFINED AS FOLLOWS:		
Current assets	$117,861,362	$108,178,778
Less: Current liabilities	94,356,661	79,640,467
	$ 23,504,701	$ 28,538,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 26, 1981

1. ACCOUNTING POLICIES

Consolidation

The accounts of all the wholly-owned subsidiary companies, being Patrons Capital Funding Limited, Patrons Acceptance Limited, Patrons Transportation Limited, Patrons Elevators Limited, Patrons Marketing Limited, UCO Petroleum Limited, Flavorite Poultry Limited, and Tend-R-Flesh Limited (non-operating) have been consolidated and are as of September 26, 1981.

Inventories

Inventories are valued at the lower of cost or replacement cost. Cost is determined principally on the first-in, first-out method.

Fixed Assets and Depreciation

Fixed assets are stated at cost less government contributions received. The policy of the company is to provide for depreciation charges to operations, on a straight-line basis, which will absorb the cost of property, plant and equipment over the estimated useful lives. At the time property, plant and equipment items are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the accounts and the resulting gain or loss is included in the general reserve. Maintenance and repairs are charged to operations as incurred. Major renewals and betterments are capitalized.

Income Taxes

Income taxes charged in the consolidated statement of operations represent both the portion currently payable of $1,104,400 and a reduction of deferred income taxes of $3,452,000. The reduction of deferred income taxes results from expenses charged against savings which exceed the amounts deducted for income tax purposes.

2. INVESTMENTS — at cost

These are made up as follows:

	1981	1980
Investment in other companies	$7,473,613	$6,714,431
Mortgages and notes due 1982-1992 at rates 6% to 23¼%	524,775	752,794
	7,998,388	7,467,225
Less: Current portion shown under accounts receivable	110,182	150,384
	$7,888,206	$7,316,841

3. PROPERTY AND EQUIPMENT

	1981	1980
Assets — at cost (a)		
Land	$ 4,379,582	$ 4,135,127
Buildings	39,207,057	37,706,274
Machinery and equipment	57,262,666	53,296,739
Automobiles and trucks	12,181,115	11,355,735
	113,030,420	106,493,875
Accumulated Depreciation		
Buildings	8,135,835	6,904,527
Machinery and equipment	25,761,974	22,109,875
Automobiles and trucks	9,082,564	8,324,177
	42,980,373	37,338,579
Net book value	$ 70,050,047	$ 69,155,296

(a) Cost of assets has been reduced by a government contribution plus accumulated interest thereon received for the construction of the Windsor grain terminal facility. The contribution of $9,000,000 is repayable depending on the degree of financial success of the project.

September 26, 1981

4. LONG-TERM DEBT

Details of amounts outstanding are:

Debentures

	1981	1980
Senior debentures		
5½% to 10% due 1982-1995	$12,945,319	$18,839,899
Over 10% to 12½% due 1983-1999	8,513,291	7,874,747
Over 12½% to 17½% due 1984-1994	4,765,614	—
	26,224,224	26,714,646
Subordinated debentures		
9¼% to 16¾% due 1992-1995	1,147,274	1,260,944
9⅜% to 11¼% due 1998-2001	2,159,506	2,580,370
	3,306,780	3,841,314
Total debentures	29,531,004	30,555,960
Less: Principal repayments due within one year	1,925,732	2,845,562
	27,605,272	27,710,398
Other Long-Term Debt		
Mortgages 6% to 10% due 1982-1988	478,750	552,660
First mortgage bonds, series "A", 10¾% due 1981-1997	11,600,000	12,000,000
Term bank loans, from 19.15% to 22⅝% due 1984-1988	18,850,000	20,000,000
Notes 6% to 21¼% due 1982-1989	16,757,584	12,775,000
	47,686,334	45,327,660
Less: Principal repayments due within one year	903,582	2,978,910
	46,782,752	42,348,750
	$74,388,024	$70,059,148

During the year, new debentures totalling $3,164,255 were issued and debentures totalling $4,189,211 were redeemed. Long-term debt due in the next five years is as follows: 1982 — $2,829,314; 1983 — $5,333,315; 1984 — $12,478,630; 1985 — $6,869,697; 1986 — $10,136,840.

5. SHARE CAPITAL

Preference Class "A" Shares

Authorized:

791,626 redeemable, cumulative, non-voting, 5% class "A" preference shares, par value $10, redeemable at par after redemption during the year of 3,385 shares — $7,916,260

Issued and outstanding:

161,170 shares including 20 shares issued during the year for cash and the redemption of 3,385 shares referred to above — $1,611,700

Preference Class "B" Shares

Authorized:

1,057,632 redeemable, cumulative, non-voting, 6% class "B" preference shares, par value $10, redeemable at par after redemption during the year of 5,318 shares — $10,576,320

Issued and outstanding:

582,167	shares including 112 shares issued during the year for cash and the redemption of 5,318 shares referred to above	$5,821,670
	Less: 22,702 shares held for resale	227,020
		$5,594,650

September 26, 1981

5. SHARE CAPITAL — continued

Preference Class "C" Shares
Authorized:
500,000 redeemable, cumulative, non-voting, 8% class "C" preference shares, par value $10, redeemable at par — $5,000,000

Issued and outstanding:
NIL

Preference Class "D" Shares
Authorized:
500,000 redeemable, cumulative, non-voting, 9% class "D" preference shares, par value $10, redeemable at par — $5,000,000

Issued and outstanding:
326,250 shares including 151,250 shares issued during the year for cash and 175,000 issued for acquisition of assets — $3,262,500

Preference Class "E" Shares
Authorized:
500,000 redeemable, cumulative, non-voting, variable rate class "E" preference shares, par value $10, redeemable at par — $5,000,000. Preference shares previously designated as class "C" shares are now designated as class "E"

Issued and outstanding:
150,000 shares — $1,500,000

Common Shares
Authorized:
2,179,647 co-operative common shares, par value $10, redeemable at par after redemption during the year of 32,678 shares — $21,796,470

Issued and outstanding:
1,185,605 shares including 1,939 shares issued for cash and the redemption of 32,678 shares referred to above — $11,856,050

Summary of share capital issued and outstanding is as follows:

	1981	1980
Preference shares — Class "A"	$ 1,611,700	$ 1,645,350
Preference shares — Class "B"	5,594,650	5,765,830
Preference shares — Class "D"	3,262,500	—
Preference shares — Class "E"	1,500,000	1,500,000
Common shares	11,856,050	12,163,440
	$23,824,900	$21,074,620

6. CONTRIBUTED SURPLUS

Contributed surplus arises from the revaluation, for accounting purposes, of assets acquired from local co-operatives.

7. ACQUISITION OF FLAVORITE POULTRY LIMITED

United Co-operatives of Ontario acquired the shares and business of Flavorite Poultry Limited as of September 25, 1981.

September 26, 1981

8. CONTRACT RENEGOTIATION

Included as a reduction of cost of goods sold is an amount of $2,604,000 which the Co-operative is entitled to receive as a result of the renegotiation of a supply contract. This amount is being received in quarterly instalments which commenced in January, 1981, and will terminate in October, 1983. Of the balance remaining, $868,000 is included in Accounts receivable and $1,085,000 in Other accounts receivable.

9. ADJUSTMENT OF PRIOR YEARS

During the construction period of the Windsor grain terminal interest costs incurred on the long-term debt were capitalized as part of the cost of the facility and interest on short-term debt was charged to operations as incurred. Interest on short-term debt has now been capitalized. Consequently, the financial statements for 1980 and the opening general reserve for that year have been restated to reflect an increase in net savings for 1979 and 1980 of $410,675 and $206,970 respectively.

10. NON—MEMBER BUSINESS

The non-member business for the year ended September 26, 1981 was approximately 31% of the total volume.

11. COMMITMENTS

The Board of Directors authorized the payment of dividends on September 30, 1981 of approximately $471,000 payable to Class "A", Class "B", Class "D", and Class "E" preference shareholders of record as of September 30, 1981.

Auditors' Report

To the Shareholders
United Co-operatives of Ontario

We have examined the consolidated balance sheet of United Co-operatives of Ontario, as at September 26, 1981 and the consolidated statements of operations, general reserve and changes in financial position for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Co-operative as at September 26, 1981 and the results of its operations and changes in its financial position for the 52 weeks then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in treatment of short-term interest on the Windsor grain terminal as explained in note 9 to the financial statements, on a basis consistent with that of the preceding year.

Mississauga, Ontario
November 6, 1981

Ward Mallette
Chartered Accountants.

Financial and Operating Highlights

	($000's omitted)									
	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Operations and changes in financial position										
Sales	604,047	472,478	418,469	369,295	304,750	292,398	258,441	230,457	166,360	133,941
Savings (loss) before taxes and patronage	(5,206)	1,888	4,109	2,874	504	6,384	7,066	8,471	4,134	1,595
— as a % of sales	(0.9%)	0.4%	1.0%	0.8%	0.2%	2.2%	2.7%	3.7%	2.5%	1.2%
Patronage return	—	—	1,239	—	—	3,586	4,204	3,997	2,642	783
Increase (decrease) in working capital	(5,034)	(4,762)	1,968	4,515	860	(451)	4,913	(698)	9,119	1,279
Additions to property and equipment	7,982	14,353	17,746	11,824	10,618	9,846	8,226	7,325	3,437	5,747
Cash flow from operations	532	6,810	8,997	7,319	4,550	9,824	9,253	9,864	5,698	3,364
Depreciation	6,842	5,667	4,761	4,578	4,112	3,745	3,243	3,034	2,277	1,915
Financial position at year-end										
Working capital	23,505	28,538	33,300	31,332	26,816	25,956	26,407	21,495	22,193	13,075
— ratio	1.25	1.36	1.47	1.59	1.50	1.64	1.73	1.64	2.10	1.55
Property, plant and equipment — net	70,050	69,155	60,820	48,255	41,218	35,030	29,073	24,366	20,200	19,710
Total assets	209,554	194,364	177,052	142,888	130,104	109,963	99,356	85,257	67,000	59,498
Long-term debt	74,388	70,059	62,606	51,636	40,713	34,234	32,217	25,374	26,560	20,065
Long-term debt % of members' equity plus long-term debt	65%	61%	59%	57%	53%	49%	51%	49%	57%	56%
Equity as % of total assets	19.5%	23.0%	24.6%	26.7%	27.4%	32.1%	31.4%	31.1%	30.1%	26.4%
Number of members	49,200	48,200	46,500	44,700	*42,700	45,300	43,400	39,600	38,600	35,600
Number of employees	2,084	1,936	1,929	1,832	1,845	1,792	1,624	1,562	1,535	1,480

* Over 4,000 partially paid shares were redeemed from members whose full member's share was not paid in accordance with the Co-operative Corporations Act.

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